

SOUTH CAROLINA RESOURCES AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2020



September 24, 2020

Members of the South Carolina Resources Authority
State of South Carolina
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Resources Authority for the fiscal year ended June 30, 2020, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/cmw

SOUTH CAROLINA RESOURCES AUTHORITY
YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of South Carolina Resources Authority (the "Authority"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

South Carolina Resources Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of South Carolina Resources Authority as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As discussed in Note 1, the financial statements of the South Carolina Resources Authority are intended to present the financial position and the changes in the financial position of only that portion of the business-type activities of the State of South Carolina that is attributable to the Authority. They do not purport to, and do not present fairly the financial position of the State of South Carolina, as of June 30, 2020, or the changes in its financial position, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2020 on our consideration of South Carolina Resources Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Carolina Resources Authority's internal control over financial reporting and compliance.

Columbia, South Carolina
September 24, 2020

The Hollar Group, P.A.

SOUTH CAROLINA RESOURCES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020

This section of the annual financial report of the South Carolina Resources Authority (the "Authority") presents the analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the financial statements, which follow this section.

THE AUTHORITY

The Authority was created by Act 682 of 1988 of the South Carolina General Assembly as a public instrumentality of the State, codified as the South Carolina Resources Authority Act under Chapter 37 of Title 11 of the South Carolina Code of Laws 1976, as amended (the "Act"). The Authority's membership is that of the State Fiscal Accountability Authority, whose membership is comprised of the Governor (who serves as Chairman), the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee.

In adopting the Act, the General Assembly found that there existed a definite need for additional sources with which to finance the then present and future needs of the people of South Carolina for water supply, sewer system, sewage, wastewater treatment facilities or other projects authorized by the General Assembly. The General Assembly further recognized that such needs might be alleviated in part through the authorization to the Authority to encourage the investment of both public and private funds for these purposes and to make loans and grants available to local governments for projects approved by the Authority. Those loans and grants were deemed necessary to promote the general health and welfare of all South Carolinians and as an incentive to foster economic growth, particularly in the rural, less developed areas of the State.

The Authority acts as a conduit to the financing activities of the local entity, but issues its debt on its own behalf. The Authority's debt is secured by obligations of the local entity to the Authority. Revenues generated by operation of the local government projects are utilized to repay the local government's obligation to the Authority.

Three issuances of debt totaling \$50.730 million were made under the Act, as follows:

- \$16.810 million South Carolina Resources Authority Series 1989, maturing April, 2019;
- \$25.980 million South Carolina Resources Authority Series 1990, maturing June, 2020; and
- \$7.940 million South Carolina Resources Authority Series 1991, maturing December, 2021.

As of June 30, 2020, all of the originally issued bonds had been retired. Effective in October, 1994, the General Assembly enacted legislation that prohibits the Authority from issuing additional bonds except to refund bonds previously issued. Debt issued by the Authority is not a debt of the State, and neither the State's faith and credit nor its taxing power is pledged to the payment of the bonds. Bonds and the interest thereon are payable solely from the revenues generated by projects funded by bond proceeds and by local government bond obligation payments.

SOUTH CAROLINA RESOURCES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2020

In prior years, the local government bond obligations receivable represented the balance due from the Town of New Ellenton (the "Town"). The original amount of the receivable was \$5,025,000, and the local government has made one principal payment in the amount of \$65,000, leaving a principal balance of \$4,960,000. Proceeds from the issuance of the bonds were used to construct a sewer system that has not generated adequate revenues to pay debt service. A court order entered in 1997 provides that as long as the Town deposits set percentages of its revenues from the system with the bond trustee, the trustee agrees not to seek appointment of a receiver for the Town. The Town was not obligated to make any additional payments on the bonds other than those provided under the court order. The Town's obligation to deposit a percentage of its revenues terminated on June 1, 2020.

For many years, the State appropriated funds to supplement payment of debt service on the Authority's obligations due to lack of repayment by the Town. The Authority elected to redeem a portion of the Series 1990 bonds prior to maturity. The State made provision in its 2007-08 appropriation act to effect such a redemption, provided that such redemption must not discharge the local obligation or in any way relieve the Town of its requirement to make court-ordered payments to the Authority. As of June 30, 2018, only \$5,000 of the bonds remained outstanding and the remaining balance was repaid upon maturity of the bonds during the year ended June 30, 2019.

Note 3 of the Notes to Financial Statements provides additional information concerning these amounts and their impact on the financial statements of the Authority.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

- The Statement of Net Position includes all of the Authority's assets and liabilities, with the difference between the two reported as net position, and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.
- All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and credit-worthiness.
- Information about the Authority's cash receipts and cash payments during the reporting period is reflected in the Statement of Cash Flows. This statement reflects cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities; and provides information about the sources, uses and changes in balance of the Authority's cash during the reporting period.

SOUTH CAROLINA RESOURCES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020

SUMMARY AND COMPARISON OF FINANCIAL RESULTS

Table 1 summarizes the Authority's Statement of Net Position for the period ending June 30, 2020, and includes comparative data to the period ending June 30, 2019.

Table 1: Summary Statement of Net Position

	June 30, 2020	June 30, 2019	Increase (Decrease)	
			Difference	%
Assets				
Current assets	\$ 1,137,421	\$ 1,155,045	\$ (17,624)	-1.5%
Total assets	<u>\$ 1,137,421</u>	<u>\$ 1,155,045</u>	<u>\$ (17,624)</u>	-1.5%
Restricted net position	<u>\$ 1,137,421</u>	<u>\$ 1,155,045</u>	<u>\$ (17,624)</u>	-1.5%

Overall, the Authority's Net Position decreased by 1.5%, primarily due to the reduction in the local government bond obligations receivable owed by the Town to the Authority for the year ended June 30, 2020.

Virtually all of the Authority's assets are comprised of cash and cash equivalents and earnings thereon and other receivables primarily from the trustee relating to local government obligations.

Table 2 summarizes the Authority's Statement of Revenues, Expenses and Changes in Net Position for the period ending June 30, 2020, and includes comparative data to the period ending June 30, 2019.

SOUTH CAROLINA RESOURCES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020

Table 2: Summary Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2020	June 30, 2019	Increase (Decrease)	
			Difference	%
Operating revenues	\$ -	\$ 18,972	\$ (18,972)	-100%
Operating expenses	17,624	15,833	1,791	11%
Operating (loss) income/net (loss) income	(17,624)	3,139	(20,763)	-661%
Net position - beginning of year	1,155,045	1,151,906	3,139	0%
Net position - end of year	\$ 1,137,421	\$ 1,155,045	\$ (17,624)	-2%

The Authority's operating revenues decreased as a consequence of the decrease in the allowance and amortization of discount for uncollectible amounts during the year ended June 30, 2020 being less than the decrease in the year ended June 30, 2019 as a result of payments to date and anticipated payments. Operating expenses were consistent from 2019 to 2020.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

The Authority has no capital assets and has not issued debt subsequent to the Series 1991 bonds described above. Current statutory provisions provide only for the issuance of debt to refund existing obligations. The Authority does not presently anticipate the issuance of any additional short or long-term debt.

ECONOMIC FACTORS AND OUTLOOK

As noted above, the Authority has no further long-term debt outstanding and funds are available to cover all future administrative costs. The Authority will perform its final reconciliation with the Town for amounts remitted to the Authority during the year ending June 30, 2021.

CONTACTING THE AUTHORITY

Persons needing additional information concerning this report or otherwise needing to contact the Authority should address requests to:

SC Office of the Treasurer
1200 Senate Street, Suite 214
Wade Hampton Office Building
Columbia, SC 29201

SOUTH CAROLINA RESOURCES AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2020

Assets

Current assets

Cash and cash equivalents, restricted \$ 10,570

Other receivables 1,126,851

Total current assets 1,137,421

Total assets \$ 1,137,421

Net position

Restricted \$ 1,137,421

Total net position \$ 1,137,421

The Notes to Financial Statements are an integral part of this statement.

SOUTH CAROLINA RESOURCES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2020

Operating expenses	
Change in allowance for uncollectible amounts	\$ 2,924
Administrative	<u>14,700</u>
Total operating expenses	<u>17,624</u>
Change in net position	(17,624)
Net position, at beginning of year	<u>1,155,045</u>
Net position, at end of year	<u>\$ 1,137,421</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTH CAROLINA RESOURCES AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

Cash flows used by operating activities	
Payment of administrative expenses	\$ (14,700)
Net cash flows (used by) operating activities	<u>(14,700)</u>
Cash flows from investing activities	
Interest received on deposits and investments	<u>-</u>
Net cash flows from investing activities	-
Cash flows (used by) noncapital financing activities	
Principal payments made on bonds payable	-
Bond interest paid	<u>-</u>
Net cash (used by) noncapital financing activities	<u>-</u>
Net (decrease) in cash	(14,700)
Cash and cash equivalents at beginning of year	<u>25,270</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,570</u></u>
Reconciliation of net operating income to net cash used by operating activities	
Operating loss	\$ (17,624)
Adjustments to reconcile net operating loss to net cash used by operating activities	
Decrease in local government obligations receivable	93,838
(Increase) in other receivables	<u>(90,914)</u>
Total adjustments	2,924
Net cash (used by) operating activities	<u><u>\$ (14,700)</u></u>
Noncash activities	
Other receivables were increased by \$90,914 from payments made by the local government to the third party trustee	

The Notes to Financial Statements are an integral part of this statement.

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Note 1. Summary of Significant Accounting Policies

General

The financial statements of the South Carolina Resources Authority (the "Authority") were prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Authority is a public instrument of the State of South Carolina established by the General Assembly in 1988 (in Act 682), Chapter 37, Title 11 of the South Carolina Code of Laws 1976, as amended. In taking that action, the General Assembly found "...a definite need for additional sources from which to finance the present and future needs of the people of South Carolina for the undertakings authorized by this act" (which are predominantly water supply and waste water construction and improvement projects).

Under Act 682, the Authority's role is to issue bonds to provide the funds needed to finance water and sewer projects via the purchasing of local government obligation revenue bonds. Generally, if at any time any local government fails to effect the punctual payment of the principal or interest on its local obligations, the State Treasurer shall withhold from the local government sufficient monies from any State appropriation and apply so much as is necessary to make the payment of the principal and/or interest on the local obligation of the government. However, as more fully described in Note 3 below, this provision of State law was superseded by a court order entered in 1997 with respect to obligations of the Town of New Ellenton (the "Town") to the Authority.

Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements.

The accompanying financial statements present the financial position, results of operations and cash flows solely of the Authority and do not include any other divisions, instrumentalities or any component units of the State of South Carolina.

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

The Authority reports under the provisions of GASB Statement No. 34 ("GASB 34"), Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB 34, as amended by GASB Statement No. 63 ("GASB 63"), established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a classification of net position into three components – net investment in capital assets; restricted net position; and unrestricted net position.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The Authority does not have any capital assets, thus this classification is not used.

Restricted net position consists of net assets that are subject to externally imposed constraints of creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net assets or deficits that do not meet the definition of "restricted net position" or "net investment in capital assets." The Authority had no unrestricted net position at June 30, 2020.

Fund Accounting

The Authority uses funds to report on its financial position, the results of its operations and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions or limitations. Separate accounts are maintained for each fund.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is, in turn, divided into separate "fund types." The fund used by the Authority is a proprietary fund type.

Proprietary funds are used to account for activities similar to those found in private business, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided to outside parties (enterprise funds), to other departments/agencies primarily within the government, or to other governmental units or not-for-profit organizations on a cost reimbursement basis (internal service funds).

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Note 1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

The proprietary fund accounts for the activities of the Authority in its capacity to issue its bonds in amounts it determines to be necessary or convenient to provide funds to carry out its purposes and powers and to pay all costs and expenses incurred in connection with the issuance of bonds. Section 11-37-60 of the State of South Carolina Code of Laws 1976, as amended, states that “the total principal amount of bonds outstanding at any one time may not exceed the sum of sixty million dollars.”

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus.

The proprietary fund is accounted for using the accrual basis of accounting whereby revenue is recognized when earned and expenses are recognized when incurred. Under this method, all assets and liabilities associated with the operation of the fund are included on the Statement of Net Position. Net position has been restricted for the financing of projects recommended by the Water Resources Coordinating Council as established pursuant to the Authority’s enabling legislation, debt service and payment of administrative costs. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net position.

Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. All of the Authority’s cash and cash equivalents are restricted.

For financial reporting purposes, the Authority classifies cash on deposit in financial institutions and repurchase agreements as cash and cash equivalents. Of its investments meeting the definition of cash equivalents and having maturities at the time of purchase of 3 months or less, the Authority’s policy is to classify repurchase agreements and open ended guaranteed investment contracts as cash equivalents.

Local Government Bond Obligations Receivable

Local government bond obligations receivable consist of obligations due from the Town and are stated at amortized cost. The Authority does not consider these receivables to be investments since it is not holding them for investment purposes and is therefore not required to carry them at fair value.

Other Receivables

Other receivables represent amounts collected by the trustee from the Town that have not been remitted to the Authority.

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Note 1. Summary of Significant Accounting Policies (continued)

Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues generally result from exchange transactions to provide goods or services related to the Authority's principal ongoing operations.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include State appropriations. The State made no appropriations to the Authority during the fiscal year ended June 30, 2020.

Budget

The Authority is not required by its enabling legislation or bond covenants to adopt a budget. Accordingly, the Authority had no legally adopted budget for the fiscal year ended June 30, 2020.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

All cash and cash equivalents and investments of the Authority are under the control of the Office of State Treasurer which, by law, has sole authority for the investment of such funds.

The following schedule reconciles the amounts reported in the Statement of Net Position to the notes.

	Notes		Statements
Deposits	<u>\$ 10,570</u>	Cash and cash equivalents	<u>\$ 10,570</u>
Totals	<u>\$ 10,570</u>		<u>\$ 10,570</u>

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. As prescribed by statute, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks or savings and loan associations. These deposits must be secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. All deposits are required to be insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian.

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Note 2. Deposits and Investments (continued)

The Authority does not maintain any deposits denominated in a foreign currency.

The Authority has not adopted a formal investment policy. The State Treasurer has full power to invest and reinvest all funds of the Authority in any of the following:

- 1) obligations of the United States, its agencies and instrumentalities;
- 2) obligations of the State of South Carolina or any of its political subdivisions;
- 3) obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank;
- 4) obligations of any corporation within the United States, if such obligations bear any of the three highest ratings of at least two nationally recognized rating services;
- 5) certificates of deposit where the certificates are collaterally secured by securities of the type described in 1) and 2) and held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; but this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; and,
- 6) repurchase agreements when collateralized by securities of the type described in 1) and 2) and held by a third party as escrow agent or custodian, of a market value not less than the repurchase agreement so collateralized, including interest.

At June 30, 2020, the Authority did not maintain any investments.

Note 3. Local Government Bonds Obligations Receivable

Local government bonds obligations receivable represented the balance due from the Town with an effective interest rate of approximately 7.19% with a final maturity date of June 2020. The original amount of the receivable was \$5,025,000 and the local government made one principal payment in the amount of \$65,000 leaving a principal balance of \$4,960,000. The funds were used to construct a sewer system and the system had not generated adequate revenues to pay the debt service. A court order entered into in 1997 provides that as long as the Town deposits set percentages of its revenues from the system with the Trustee, the Trustee agrees not to seek appointment of a receiver for the Town.

The Town was not obligated to make any additional payments on the bonds other than those provided under the court order. The court order provides that the Town was no longer required to deposit a percentage of its revenues once the bonds have been paid in full or upon the final maturity date of June 1, 2020. Provided the Town maintained compliance with its deposit requirements under the court order, the State Treasurer was not permitted to intercept distributions of appropriations or revenues to the Town, and the Town's payment obligations to the Authority were discharged in accordance with the Town's original debt amortization schedule.

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Note 3. Local Government Bonds Obligations Receivable (continued)

During the fiscal year ended June 30, 2020, the Town remitted a total of \$90,914 in accordance with the court order. There is no remaining balance due at June 30, 2020.

The change in the estimate of the present value of future payments by the Town from the prior year and the amortization of the discount to present value was \$2,924, and is reflected on the Authority's Statement of Revenues, Expenses, and Changes in Net Position as operating expense and described as change in allowance for uncollectible amounts.

At June 30, 2020, the trustee held a total of \$1,126,851 in amounts paid by the Town to the trustee which are pledged and due but have not yet been remitted to the Authority due to provisions in the associated trust agreement. The Authority recorded these amounts as other receivables on the Statement of Net Position because they were available only for expenditure in accordance with its enabling legislation, to satisfy its debt service obligations and administrative costs pursuant to the bond documents, or otherwise in accordance with the court order. The Authority has further determined that its entire net position is restricted because of these externally imposed constraints.

Note 4. Related Party Transactions

The Authority has received certain administrative, custodial, investment and related services from the Office of State Treasurer at no cost. During the year ended June 30, 2020, no other State agencies provided to the Authority or received from the Authority any other significant services.

Note 5. Subsequent Events

The Authority has evaluated all events subsequent to the Statement of Net Position date of June 30, 2020, through the date of issuance of these financial statements, September 24, 2020.

The South Carolina Resources Authority Act Section 11-37-280 states, "When all bonds issued by the South Carolina Resources Authority are retired, this chapter is repealed". Wind down operations of the Authority are anticipated to occur during fiscal year 2020-21. All remaining funds of the Authority will be returned to the State as a reimbursement of debt service for funds allocated in Part 1B section 68.1 of the 2007-08 Appropriation Act.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. George L. Kennedy III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of South Carolina Resources Authority (the "Authority") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 24, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Columbia, South Carolina
September 24, 2020

The Holla Group, P.A.